



Weekly Market Insight

August 27, 2010

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

By Benjamin Tal

The probability of a double dip in the US appears to be the main focus these days. And you cannot blame the market for getting a bit nervous given the latest array of disappointing numbers coming from the US economy.

But the real story is not whether there will be a double dip or not. After all, even if we avoid a double-dip recession, economic growth in the US will, in all likelihood, be so slow that it will feel like a double dip.

The more important question is what kind of an economy is emerging following the recession and the brief recovery? In this context many talk about a new normal. That is, a new economy that will see a much weaker growth trajectory in the coming five years or so, a weaker consumer due to deleveraging, a much larger role played by the government, low interest rates, and low inflation.

But this kind of assessment assumes that the US economy does not adjust to the new reality in any significant way. This assumption, I think, will be proven wrong. Key here is the role that emerging markets will be playing in changing the nature of the US economy.

A necessary condition to any previous US and, in fact, global recovery was a rebound in housing and consumer spending. These two sectors were always the pioneers of the recovery. Today this, of course, is not the case. The housing market is probably entering double-dip territory, and the consumer is busy deleveraging and saving, with the saving rates reaching well over 6%.

What's different this time around is the fact that housing and consumer spending are not the only necessary and sufficient conditions for a sustainable US recovery. Just look at the contribution of exports and investment to recent US performance and you find that for the first time on record, the contribution of these two sectors to overall GDP growth during a recovery was larger than the combined contribution of housing and consumption.

Is this sustainable? The shorts answer is yes. While in previous recessions and recoveries, emerging markets were too small to impact the US economy; that is not the case this time around. Emerging markets now account for almost 25% of global GDP and are close to 80% of the size of the US economy. That's large enough to impact the trajectory of US exports. In fact, no less than 55% of US exports go to emerging markets, and with emerging markets likely to continue to outpace developed economies, this share will continue to rise.

Increased exports lead to increased investment by corporations. And the question is to what extent corporate America is ready to take advantage of the increased demand for its products. And if you look at the recent improvement in productivity in US manufacturing, the increased investment in capital intensive industries and the elevated cash position enjoyed by corporate America, the likelihood is that we will see an even stronger push into emerging markets given limited opportunities at home.

Given this dynamic, it is not unthinkable that the new economy will see a much smaller share of housing and consumption and a much larger share of exports and investment. So maybe we should be talking about a new growth mix as opposed to a new normal.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	16	<i>unavailable</i>	19	30	22
10Y / 2Y SPREAD (bps)	202		210	236	243
2Y SWAP SPREAD (bps)	16		18	18	36
3M T-Bill (%)	0.14		0.14	0.15	0.13
LIBOR 1 MONTH (%)	0.26		0.26	0.31	0.26
LIBOR 3 MONTH (%)	0.30		0.33	0.45	0.35
2-YR BOND (%)	0.52		0.48	0.56	1.03
5-YR BOND (%)	1.43		1.40	1.62	2.48
10-YR BOND (%)	2.55		2.58	2.93	3.46
A Rated / 10Y TREASURY (bps)	158		167	175	201
B Rated / 10Y TREASURY (bps)	626		643	687	676
BB Rated / 10Y TREASURY (bps)	438		443	453	534
CANADA					
PRIME / BA SPREAD (bps)	182		182	186	185
CDOR 3 MONTH (%)	1.01		1.02	0.99	0.56
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	39		38	34	36
10Y / 2Y SPREAD (bps)	156		159	165	210
2-YR BOND (%)	1.27		1.31	1.49	1.30
5-YR BOND (%)	2.09		2.18	2.32	2.65
10-YR BOND (%)	2.83		2.90	3.14	3.40
A Rated / 10Y TREASURY (bps)	127		131	136	131
BBB Rated / 10Y TREASURY (bps)	182		183	188	191
CAN Sovereign Agency / 10Y TREASURY (bps)	33		41	49	48
Provincial / 10Y TREASURY (bps)					
ALTA	67		73	71	89
BC	89		95	94	93
MAN	81		86	83	85
NB	90		93	91	90
PEI	100		107	108	123
NFLD	109		116	114	120
ONT	98		103	100	100
QUE	102		107	108	108
SASK	100		106	106	91
NS	97		103	107	106
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	73.1		73.8	77.6	72.7
NATURAL GAS (US\$ / MMBtu)	3.8		4.2	4.9	3.1
SILVER (US\$ / t oz.)	19.1		18.0	18.0	14.7
GOLD (US\$ / t oz.)	1240.7		1227.0	1175.0	956.5
WHEAT (US¢ / bu.)	660.8		681.5	640.8	478.3
SOYBEANS (US¢ / bu.)	1016.8		1008.0	1042.8	1141.0
SUGAR (US¢ / lb.)	19.4		20.0	19.5	23.5
CORN (US¢ / bu.)	421.0		410.5	385.3	324.5
FX					
C\$ / US\$	1.058		1.049	1.031	1.084
US\$ / EURO	1.272		1.269	1.304	1.436
C\$ / EURO	1.346		1.331	1.344	1.557
YEN / US\$	85.010		85.600	86.680	93.558
US\$ / BRITISH POUND	1.549		1.550	1.567	1.630
SWISS FRANCS / US\$	1.025		1.038	1.045	1.056

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, August 26, 2010

Index (Region/Country)	DAILY					52 WEEK			3-yr % chg		
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low		% Chg	
Global											
The Global Dow (World)	1789.35	1772.07	1774.89	2.87		0.16	-10.6	2087.12	1699.63	-2.9	-10.4
The Global Dow (Euro) (World)	1322.3	1311.96	1311.96	-9.44	-0.71		0.7	1448.65	1180.97	8.4	-8.3
DJ Global Index (World)	214.1	211.76	212.43	0.67		0.32	-6.4	242.2	203.56	1.8	-10.1
DJ Global ex U.S. (World)	187.94	185.25	187.28	2.03		1.1	-6.9	210.96	170.93	1.5	-10.1
MSCI EAFE* (World)	n.a.	n.a.	1420.64	20.04		1.43	-10.1	1642.2	1305.13	-4.2	-13
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	120.67	119.86	120.49	0.58		0.48	-2.1	132.22	111.94	3.8	-7.6
All Ordinaries (Australia)	4389.4	4356.5	4389.4	32.76		0.75	-10.1	5024.1	4250.6	-1.5	-10.3
S & P/ASX 200 (Australia)	4356	4320.3	4356.02	35.89		0.83	-10.6	5001.9	4222.1	-2.1	-10.6
DJ CBN China 600 (China)	24286.15	24015.99	24149.03	77.48		0.32	-16.9	29811.23	20950.68	-4.8	-15.6
Dow Jones China 88 (China)	230.81	228.14	229.09	0.21		0.09	-24	308.76	208.48	-15.5	-20.8
Shanghai Composite (China)	2616.96	2590.61	2603.48	6.9		0.27	-20.6	3338.66	2363.95	-11.6	-20.1
Hang Seng (Hong Kong)	20664.76	20567.33	20612.06	-22.92	-0.11		-5.8	22943.98	18985.5	1.8	-3.5
Bombay Sensex (India)	18261.06	18159.13	18226.35	46.71		0.26	4.4	18454.94	15398.33	15.5	8.1
Jakarta Composite (Indonesia)	3150.16	3128.87	3145.14	6.23		0.2	24.1	3145.14	2285.93	33.5	13.6
Nikkei 300 (Japan)	165.2	163.86	165.24	0.94		0.57	-10.7	202.75	164.24	-14.7	-19.7
Nikkei Stock Avg (Japan)	8910.62	8834.09	8906.48	61.09		0.69	-15.5	11339.3	8845.39	-15	-18.2
Topix Index (Japan)	811.79	805.18	811.79	4.48		0.55	-10.6	998.9	807.31	-15.8	-20
Kuala Lumpur Composite (Malaysia)	1408	1397.24	1408	11.03		0.79	10.6	1408	1168.01	19.6	3.4
NZSX-50 (New Zealand)	3031.39	3006.06	3018.25	12.2		0.41	-6.6	3335.51	2933.82	-1.9	-9.4
KSE 100 (Pakistan)	9633.55	9544.49	9589.37	35.56		0.37	2.2	10677.47	8315.16	15.3	-7.3
Manila Composite (Philippines)	3600.83	3554.15	3595.58	41.43		1.17	17.8	3613.37	2768.61	24.8	3.9
Straits Times (Singapore)	2935.15	2922.57	2925.87	-0.68	-0.02		1	3025.04	2569.93	10.7	-4
Kospi (South Korea)	1744.4	1729.76	1729.76	-5.03	-0.29		2.8	1790.6	1524.5	8.2	-1.2
Colombo Stock Exchange (Sri Lanka)	5619.67	5525.96	5594.3	11.43		0.2	65.2	5594.3	2588.04	116.2	31.2
Weighted (Taiwan)	7758.14	7666.51	7689.74	-47.24	-0.61		-6.1	8356.89	6690.75	14.9	-4
SET (Thailand)	889.71	882.69	886.1	1.59		0.18	20.6	894.78	652.4	35.8	3.9
Europe											
Stoxx Europe 600 (Europe)	250.42	248.43	249.65	2.11		0.85	-1.4	272.14	230.59	6.1	-12.3
Stoxx Europe 50 (Europe)	2442.18	2421.71	2433.68	16.77		0.69	-5.6	2711.84	2285.13	1.6	-13.2
Euro Stoxx 50 (Euro zone)	2619.84	2592.43	2606.89	19.49		0.75	-12.1	3017.85	2488.5	-6.1	-15
Euro Stoxx (Euro zone)	250.71	248.47	249.73	1.96		0.79	-9.1	284.91	237.29	-3.2	-15.1
ATX (Austria)	2411.67	2387.25	2399.06	10.9		0.46	-3.9	2795.32	2216.84	-4	-19
Bel-20 (Belgium)	2452.38	2433.12	2446.63	22.63		0.93	-2.6	2716.7	2290.72	3	-16.7
PX 50 (Czech Republic)	1154.5	1147.1	1148	5.9		0.52	2.7	1314.6	1092.8	-0.9	-13.4
OMX Copenhagen (Denmark)	365.52	361.55	365.4	7.5		2.1	15.7	396.15	304.16	16	-8.1
OMX Helsinki (Finland)	6502.03	6451.1	6485.98	50.07		0.78	0.5	7452.62	5913.92	4.5	-16.7
CAC 40 (France)	3491.85	3455.51	3475.03	24.84		0.72	-11.7	4065.65	3331.29	-4.8	-14.6
DAX (Germany)	5948.91	5896.52	5912.58	13.08		0.22	-0.8	6351.6	5301.42	8.1	-7.7
BUX (Hungary)	22114.07	21746.1	21746.1	2.48		0.01	2.4	25322.96	18349.39	14.2	-6.8
FTSE MIB (Italy)	19802.61	19519.64	19735.47	270.02		1.39	-15.1	24425.98	18382.71	-12.2	-21
AEX (Netherlands)	315.36	312.33	314.22	2.5		0.8	-6.3	357.43	289.01	5.8	-15.4
All-Shares (Norway)	395.17	388.72	392.69	3.97		1.02	-6.5	444.01	342.44	11.2	-10.1
WIG (Poland)	41862.04	41599.21	41717.62	144.82		0.35	4.3	44078.65	35784.36	10.3	-11.5
PSI 20 (Portugal)	7332.16	7279.3	7321.09	64.4		0.89	-13.5	8882.69	6624.29	-6.5	-16.8
DJ Russia Titans 10 (Russia)	5362.52	5300.97	5357.64	72.5		1.37	-3.9	6071.02	4347.87	19.6	-6.8
RTS Index (Russia)	1411.17	1392.5	1409.51	23.7		1.71	-1.2	1676.27	1053.17	31.7	-8.9
IBEX 35 (Spain)	10056.4	9934.8	10004.4	110.4		1.12	-16.2	12222.5	8669.8	-11.9	-11.3
SX All Share (Sweden)	315.46	313.18	314.87	3.16		1.01	5.1	337.54	269.58	13.1	-7
Swiss Market (Switzerland)	6153.96	6110.37	6131.76	33.17		0.54	-6.3	6967.56	5942.25	-0.6	-11.3
Istanbul National 100 (Turkey)	59058.09	58349.86	59058.09	772.44		1.33	11.8	60737.28	44585.14	24.6	8
FTSE 100 (U.K.)	5167.8	5109.4	5155.84	46.44		0.91	-4.7	5825	4796.8	5.9	-6.1
FTSE 250 (U.K.)	9702.69	9623.31	9677.94	54.38		0.57	4	10690.08	8519.93	11.2	-4.1
Americas											
DJ Americas (Americas)	284.59	280.12	280.84	-1.62	-0.57		-5.3	324.75	260.52	4	-9
Merval (Argentina)	2373.13	2311.09	2321.44	-9.69	-0.42		0	2487.76	1743.64	30.5	3.7
Sao Paulo Bovespa (Brazil)	65270.95	63803.94	63867.48	-935.95	-1.44		-6.9	71784.77	55385.72	10.7	6.4
S & P/TSX Comp (Canada)	11707.07	11618.69	11653.18	5.06		0.04	-0.8	12280.97	10689.78	6.6	-4.8
Santiago IPSA (Chile)	4485.41	4442.3	4455.1	1.9		0.04	24.4	4523.51	3132.55	38.1	11.1
IPC All-Share (Mexico)	31633.79	31172.72	31217.99	-235.73	-0.75		-2.8	34134.23	27749.16	9.8	1.3
Caracas General (Venezuela)	64934.54	64768.32	64768.77	-69.42	-0.11		17.6	66061.09	49422	31.1	16.8
Other Countries											
CASE 30 (Egypt)	6475.4	6412.13	6474.45	69.64		1.09	4.3	7603.04	5850.38	-3.4	-5.1
Tel Aviv (Israel)	1139.8	1132.15	1139.8	12.73		1.13	-0.5	1237.85	939.71	17.2	1.7
Johannesburg All Share (South Africa)	26925.55	26470.47	26873.08	402.61		1.52	-2.9	29565.1	24519.76	7.5	-0.7

*Europe, Australia, Far East: U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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